2024

FINANCIAL MANAGEMENT — HONOURS

Paper : DSE-6.2AH

Full Marks : 80

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Group - A

1. Discuss the inter-relationship between three major decision areas of financial management. 5

Or,

Briefly explain the components of financial environment. 5

2. Baburam Ltd. is considering a project with initial cash outflow of ₹ 11 lakh. Economic life of the project is 5 years. The estimated scrap value of the project is ₹ 2.75 lakh. The profits before depreciation and taxes are expected to be as follows :

Year	1	2	3	4	5
₹ (lakh)	2.5	3.1	3.21	3.45	3.2

Find out the cash inflows from the project for the five years considering 30% corporate tax rate. Tax rule states 12% rate of depreciation under reducing balance method. 5

3. Explain with example the concept of operating cycle. 5

4. Two projects, X and Y are under consideration by two companies, Shyama Co. and Das Co. The details of X and Y are as follows :

	X	Y
Investment (₹)	1,00,000	2,00,000
Economic Life (years)	7	8
Profit per annum (₹)	19,200	34,800
Cash flow per annum (₹)	22,000	46,000

Two companies, Shyama Co. and Das Co. have the following criteria for selecting projects :

	Required payback period	Required rate of return
Shyama Co.	3 years	18%
Das Co.	4 years	22%

Suggest suitable projects among X and Y to these companies. 5

Or,

Distinguish between temporary and permanent working capital. 5

Group - B

5. The following information are available from Ray Ltd.

Post-tax earnings	₹ 10 lakh
Number of equity shares outstanding	2 lakh
Dividend pay-out ratio	40%
Price-Earnings ratio	8
Rate of return on investment	16%

(a) Calculate the dividend per share and cost of equity for Ray Ltd.

(b) Apply Walter's Model to find out the value of equity share.

(c) The newly appointed finance manager, Mr. Sukumar suggested the higher authority to increase the pay-out ratio to 55% so as to satisfy the equity shareholders. Do you agree with his opinion? Justify. [Calculation of share price is not required] 4+4+2

Or,

(a) Mention the assumptions of Gordon's Model.

(b) Discuss any two types of dividend. 6+4

6. (a) Discuss the procedure of debtors and cash management of working capital.

(b) Explain why 'wealth maximization' is more preferable than 'profit maximisation' as the goal of financial management. 6+4

7. The data for Hati Ltd. and Timi Ltd. for the year ended 31st March, 2024 were as follows :

	Hati Ltd.	**Timi Ltd.**
Variable Cost as a Percentage of Sales	75	50
Interest Expenses (₹)	3000	1000
Degree of Operating Leverage	6	4
Degree of Financial Leverage	4	2
Income Tax Rate : 30%		

Prepare Income statement for each of the companies and comment on the risk. 8+2

Or,

(a) Discuss Net Income theory of capital structure.

(b) What are the features of a sound capital structure? 5+5

8. Gangaram Ltd. is having a fund of ₹ 50 lakh for investment. The company is considering the following projects with details given hereunder :

Project	Investment (₹)	Net Present Value (₹)	Nature of the Project
A	10,00,000	5,21,780	Indivisible
B	18,00,000	8,77,000	Divisible
C	28,00,000	12,01,000	Divisible
D	12,00,000	(–) 74,150	Indivisible
E	17,00,000	9,50,000	Indivisible
F	30,00,000	15,15,000	Divisible

Apply the concept of capital rationing and select the combination of projects which will maximise the net present value. Also find NPV of the combination. 8+2

Or,

(a) Discuss, with example, whether discounted payback period concept can be applied to find out profitability of a project.

(b) Explain the concept of Profitability Index in the context of capital expenditure decisions. 6+4

9. The management of Adyanath Ltd. is deciding whether they need to change their present capital structure of 1 : 1 debt-equity ratio. The target structure will have 6 : 4 debt-equity ratio. The debt financing is done through 10% debenture. The earnings per share of Adyanath Ltd. is ₹ 23, market price is ₹ 150 per share. The past trend of this company shows 6% growth in earnings. Applicable tax rate is 35%.

(a) Calculate specific costs of capital.

(b) Determine the present and target cost of capital of Adyanath Ltd.

(c) How the shareholders are getting affected under the proposed capital structure considering the risk perspective of the company? 5+5

10. Chandraketu Pvt Ltd. provides the following particulars related to cost and sales data :

(i) Raw materials ₹ 80 per unit, Overhead ₹ 60 per unit, Sales price ₹ 200 per unit.

(ii) The company wants to make 15% profit on sales price.

(iii) Raw materials are kept in stock for one month.

(iv) Processing time can be taken as, on average, two weeks. At this stage the material is fully introduced, but other expenses are 50% incurred.

(v) Finished goods are in stock for one month.

(vi) Credit enjoyed by Chandraketu Pvt. Ltd. is one month; whereas, they allow credit for two months.

(vii) The time-lags in wage and overhead payment are 1½ weeks and 4 weeks respectively.

(viii) One-fourth of the output is sold against cash; cash in hand and at bank is desired to be maintained at 20% of total current assets.

(ix) Chandraketu Pvt Ltd. considers debtors at sales value.

You are required to prepare a Statement showing the working capital needed to finance a level of activity of 52,000 units of production. [Make necessary assumptions] 10